



HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

Dec 22, 2005

MEMORANDUM FOR USD(AT&L)

ATTN: DIRECTOR, DEFENSE PROCUREMENT AND
ACQUISITION POLICY

SUBJECT: Implementing Strategic Sourcing

Attached is the Air Force Annual Report on Strategic Sourcing (January 2006). This report serves as the Air Force input to the Department of Defense's report to OMB, as response to the OFPP memorandum titled "Implementing Strategic Sourcing," dated May 20, 2005.

Should you have any questions regarding the Air Force report, please contact either Mr. Stuart Hazlett (stuart.hazlett@pentagon.af.mil, 703-588-7043) or Ms. Katherine J. Rieman (katherine.rieman@pentagon.af.mil, 703-588-7227).

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Attachment:

Air Force Annual Report on Strategic Sourcing (January 2006)

**Air Force
Annual Report on Strategic Sourcing
January 2006**

INTRODUCTION

Increasing the value of each taxpayer dollar spent is a top priority for the Air Force. Through focused collaboration and governance, the Air Force Strategic Sourcing program has optimized performance, minimized price, improved customer responsiveness, increased achievement of socio-economic acquisition goals, evaluated total life cycle management costs, improved vendor access to business opportunities, improved the quality of the products and services received, improved contract terms and conditions, increased standardization of products and services, and increased efficiencies by eliminating multiple contracts. This program includes pre-positioned contracts that are used to provide improved support of business operations and combat missions.

Strategic sourcing and other transformational efforts are changing Air Force Contracting methods and placing an increased focus on strategic purchasing compared to the tactical methods of the past. In July 2000, with the assistance of RAND Project Air Force, the Air Force conducted its first strategic spend analysis and found that in many instances it was buying the same items from the same vendors on multiple contracts at different prices. From this analysis, the Air Force began using a strategic sourcing process that led to the creation of commodity councils as an instrument of strategic sourcing. Commodity councils were developed as a collaborative effort between stakeholders with the stated objective of formulating a centralized purchasing strategy and establishing centralized contracts for enterprise-wide requirements for a selected commodity grouping. The Air Force's concept of Commodity Councils was based on IBM's model, which uses a Program Management Office (PMO) approach to strategically manage commodity council development and to establish governance oversight.

CURRENT INITIATIVES

To date, Air Force strategic sourcing initiatives have been implemented within two of the three contracting domains: Installation and Sustainment. The third domain - Systems/R&D - already uses a PMO approach to strategically acquire and manage the development of major weapon systems.

Installation Domain

The Air Force established two commodity councils, which operate across the Air Force enterprise: Information Technology, and Medical Services. A description of these commodity councils follows:

Information Technology Commodity Council (ITCC)

Desktop/Laptop Strategy

This Air Force strategic sourcing initiative established "mainstream" buying standards for Desktop and Laptop computers and established a Quarterly Enterprise Buy (QEB) process to

leverage Air Force buying power and help enforce purchase of new mainstream configurations. The Air Force awarded seven Blanket Purchase Agreements (BPAs), (five years at \$100M/ each) on 1 Oct 04. This initiative has reduced the average price for a mainstream desktop CPU from approximately \$1100 (two years ago) to less than \$650 today and avoided up to \$32M in desktops and laptops costs in FY05 (\$53M total since Jul 03)¹; and reduced configurations from 1000+ to 4. Additionally, the Air Force established a 6% small business goal for all QEB purchases of desktop and notebook computers, which the Air Force has exceeded in FY04 (9.1%) and is on track to surpass it again in FY05 (17.1%)².

Enterprise-wide Microsoft Agreements

This strategic sourcing initiative consolidated 38 previously decentralized software contracts and nine support contracts into one centralized standard licensing arrangement for the service. The Air Force awarded a six year, \$441M delivery order on 30 Jun 04 which it competed amongst existing DoD BPAs. The Air Force expects to save \$100M over a 6-year period³.

Network Centric Solutions (NETCENTS)

NETCENTS is a multiple award ID/IQ suite of eight contracts for all Air Force and DoD customers to acquire voice/video/data communications, hardware/software and system engineering, installation, and integration for networking, telephony, and security solutions, with a \$9B ceiling. Of the eight contracts, four were small business set-asides. The ordering period is 10 Sep 04 through 9 Sep 09 and is currently in the second year of the ordering period. There is a mandatory use policy in effect for Air Force IT requirements related to infrastructure installation and configuration. Expected improvements in operating efficiencies include reduced procurement related operating expense and increased small business participation.

The NETCENTS standardized procurement process has allowed contracting agencies to reduce procurement times for complex task order requirements from several months to only a few weeks and has organized file documentation by storing all relevant data under the solicitation tracking number for easier review and printing. In addition, the portal reduces the time it takes to communicate with contractors by providing a central place to post Q&As so that all contractors have access to all information at the same time.

The contract goal is 20% of total dollars obligated on contract to be shared among the four small business prime contractors; of the remaining dollars obligated to the large business primes at least 20% will go to small business subcontractors. In FY05, NETCENTS far exceeded its goal: 48% of the obligated dollars went to small business prime contractors and 20% of the subcontracted dollars went to small businesses who subcontracted to large businesses – a total of \$258M, 58% of the total obligated dollars, went to small business.

¹ The cost avoidance was calculated by taking credit for 50% of the difference between the actual price achieved through the QEB process and the average AFWay/GSA schedule price of similarly configured systems. This cost savings estimating methodology was reviewed and determined to be "reasonable" by the Air Force Audit Agency during their recent QEB audit.

² Estimate based on partial QEB0404 order information. Data collection on end-of-year decentralized QEB orders is still on-going.

³ Based on a comparison of what the USAF MAJCOMs planned to spend prior to the Microsoft -Enterprise-wide License Agreement (MS-ELA) and the estimated cost of licenses priced under the new MS-ELA.

Medical Services Commodity Council (MSCC)

Clinical Care Strategy

The strategy is aimed at reducing variation in the way health care services are procured, improving customer support, reducing management and general and administrative (G&A) costs compared to existing contracts and increasing access to qualified resources. On 16 Nov 05 the Commodity Council issued five, ten year, \$380M/each (\$1.9B total) Multiple Award Task Order contracts to fulfill requirements and centralized acquisition support and management of the contracts. Expected results/outcomes is a reduction in cost per unit due to lower unit price; reduced "gold plating" as medical treatment facilities use standardized Statements of Work (SOWs) for staff; improved operating efficiencies through increase emphasis on Return on Investment (ROI) measures; ease of task ordering process; standardized surveillance of contractor performance; increased service quality through focus on customer satisfaction; on-time delivery of services; and reduced dependence on external DoD agencies for procurement.

The Air Force reaps initial cost savings of 1% across the board by eliminating use of Federal Supply Schedules (industrial funding fee) and an additional 2% cost reduction through use of Air Force contracts over Veterans Administration business operations; a change to personal services contracts over non-personal service contracts reduces procurement costs of physicians by 10-25% (depending on specialty) and increases the pool of candidates because licenses are transferable across state lines. Additionally, all socio-economic goals are satisfied since 100% of awarded contracts are small business set asides: two small business; one women-owned, small disadvantaged business (Other); one small disadvantaged business (Hispanic American), one veteran-owned, small disadvantaged business (Hispanic American); and one Hub-Zone.

Sustainment Domain

The Air Force has implemented eight commodity councils at three Air Logistics Centers (ALCs) that manage weapon system consumables and reparables: Aircraft Accessories, Propulsion, Instruments, Aircraft Structural, Communications and Electronics, Support Equipment, Secondary Power Systems and Landing Gear. A description of these commodity councils follows:

Support Equipment Commodity Council

Oscilloscopes Strategy

On 14 Mar 05, the Air Force awarded a five year \$1.52M requirements contract to Tektronix. Oscilloscopes strategy reduced 190 National Stock Numbers (NSNs) to 3 common configurations. The expected outcome is an Acquisition Lead Time (ALT) reduction from 180-210 days to 30 days and catalog savings of 20-30% (depending on quantities ordered).

F-15, C-130 and B-52 Support Equipment Strategy

On 28 Feb 05, the Air Force awarded a \$457.7M, nine year Sole Source Basic Ordering Agreement to Honeywell. Thus far, remanufacturing turn-around-time has reduced from over 1,400 days to an average of less than 50 days and over \$6.2M of fall out funds were captured to support vital form/fit/function replacement actions. Continued expected results include: administration days reduced from 200+ days to an average of 15 days, contract actions reduced from 209 to 13 (producing administration cost avoidance of >\$500K and Honeywell

administration cost avoidance of >\$325K⁴), and 2.8 days for shipment (no previous metric to compare).

FUTURE INITIATIVES

Opportunity Assessment

In Nov 05, the Air Force began conducting an Enterprise-wide Opportunity Analysis to identify strategic sourcing opportunities for future implementation. This analysis includes a spend analysis and detailed market research for potential strategic sourcing areas. The Air Force expects to have the results of this study by 31 Jan 06. Once target commodity opportunities are identified, the Air Force will meet with its customers to begin developing a commodity sourcing strategies. The Air Force believes that these Strategic Sourcing recommendations will expand its strategic sourcing program and will continue to help the Air Force maximize limited monetary and manpower resources.

Commodity Councils

In addition to new strategic sourcing commodities resulting from the Opportunity Assessment, the Air Force has plans to develop the additional strategies within existing commodity councils during FY06:

Information Technology Commodity Council

Handheld Wireless Communications Devices Strategy

The Army and Air Force are jointly planning to award four, five year, BPAs to cover the major national cell phone service providers. The source selection team is currently in the Solicitation/Proposal Review stage of acquisition. Outcomes/benefits of this acquisition include reduction in cost per unit (lower airtime service and handset costs); change in consumption/ volume (increased standardization of handset models/types); and improved operating efficiencies (streamlined ordering and payment processes); and improved performance and spend monitoring.

Lifecycle Management of Enterprise PCs Strategy

Outcomes/benefits of this acquisition include establishment of minimum PC operating and life cycle standards; implementation of vendor-provided asset tagging; contractor installation/disposition options on enterprise contracts; and increased support for mainstream hardware and the Air Force standard software.

Digital Printing & Imaging (DPI) Strategy

The DPI strategy encompasses printers, copiers, scanners, fax machines, multi-function devices (MFDs), associated consumables (toner, ink, etc.) software, and related services. Outcomes/benefits of this acquisition include reduction in cost per unit (lower initial cost of devices and consumables; disposition of costly aged devices, right size output support), change in consumption/ volume (standardization of devices, reduced output); and improved operating

⁴ The savings was derived by using a comparative analysis of what each logistical function time was spent on a particular task times the average cost for that functional level hourly rate— then subtracting the amount of hours needed under the old process from the amount of time needed under the current contract

efficiencies (establish centralized management and funding processes and standard procedures and automated tools to monitor and improve performance). Additionally, with this initiative the Air Force gains Centralized Management of DPI devices; is able to assess device fleets (for right-sizing); can standardize management, maintenance, support and consumable purchase processes; and raises awareness of variable O&M and network vulnerability costs of DPI items. Annual Air Force spending on DPI is estimated to be over \$179M annually plus and unknown amount of hidden costs. The Air Force is still in the planning phase of the acquisition process but expects to be able to save between 10-30% when it fully implements this enterprise-wide DPI strategy in Dec 06.

Landing Gear Commodity Council

Landing Gear Strategy

This commodity council is in the planning stage of the acquisition cycle with 3-8, ten year IDIQ multiple award contracts/award term, totaling \$1.5B and scheduled for award by Nov 06. Outcomes/benefits of this acquisition include ALT reduction from 148 to 30 days or less (\$19.6M in savings); PLT reduction from 461 to 392 days (\$11.5M in savings); reduction in the number of contracts from 270 to 3 - 8; and annual MICAP hour reduction of 24% (\$18.5M in savings). The Air Force expects to make this a competitive 100% small business set-aside.

Propulsion Commodity Council

TF33 Engine Parts Strategy

This commodity council is in the planning stage of the acquisition cycle with a sole source, ten year, \$490M fixed price requirements contract w/ award fee scheduled for award by Jun 06. Outcomes/benefits of this acquisition include ALT reduction from 149 to 56 days (save \$2.9M); PLT reduction from 444 to 417; reduction in the number of contracts from 55 to 1; number of contract actions reduced from 100 to 15; pipeline asset savings of \$3M; and administrative cost savings of \$199K.

Aircraft Accessories Commodity Council

Spare and Repair Item Strategy

This commodity council is in the planning stage of the acquisition cycle at least three, ten year, FFP IDIQ task order contracts, totaling \$1.9B and scheduled for award by Jan 07. Outcomes/benefits of this acquisition include ALT reduction from 178 to 45 days; PLT reduction from 446 to 223 days; number of contracts reduced from 1648 to less than 10; number of contract actions reduced from 2346 to 175; WRM reduction savings of approx \$71M; and unit cost reduction of approx \$150M. The Air Force expects to make this a 100% small business set-aside.

Secondary Power Systems Commodity Council

Auxiliary Power Units Strategy

This commodity council is in the planning stage of the acquisition cycle with a ten-year, \$1.7B FFP contract scheduled for award by Aug 06. Outcomes/benefits of this acquisition include an ALT reduction from 132 to 20; on-time delivery increase from 58% to 90%; cost reduction of 13% (approx \$224M); and increased organic depot repair capability from 45% to 100% over the life of the contract.

Training

The Air Force commitment to training was clearly evident in the Purchasing and Supply Chain Management (PSCM) Charter signed by 17 senior Air Force civilians and general officers who dedicated themselves to "fundamentally changing our business processes...(with a) well trained and educated workforce that is flexible, multi-skilled and sustains continuous improvement."

In the past, Air Force training investments were targeted only at newly appointed commodity council members; however, with more of the Air Force Acquisition workforce becoming educated in the strategic sourcing process, the Air Force realizes that many personnel are not thoroughly versed in strategic sourcing practices: spend analysis, change management, strategic sourcing decision making, developing strategic acquisition plans, benchmarking, and performance measurement. These skills are critical to understanding strategic sourcing strategies and reducing contractor costs so contractors can pass along these cost reductions to its strategic customer/partner. The Air Force will work throughout FY06 to educate its workforce to think of strategic sourcing as a process that incorporates enterprise spend analysis, supplier relations development and stakeholder requirements into the sourcing process to assure high quality, performance and mission results at the overall lowest life cycle cost.

To this end, the Air Force continues to work with the Federal Acquisition Institute and the Defense Acquisition University (DAU) to ensure curricula developed for strategic sourcing training courses reflect the needs of the Air Force workforce and that DAU's Strategic Sourcing Community of Practice remains a world-class repository of spend analysis data, acquisition strategy development information, sample contracts, lessons learned and best practices.

And, in the 2006-2007 Air Force Contracting Strategic plan published in Nov 05 to support the Contracting Enterprise, Deputy Assistant Secretary (Contracting), Assistant Secretary (Acquisition), Mr. Charlie Williams, communicates the importance of strategic sourcing training and workforce development, " In order to thrive in this new and ever-changing environment, the Air Force must become a knowledge-based, multi-skilled workforce providing innovative business solutions, adept at anticipating requirements, and strategic sourcing experts."

Communication

The Air Force's challenge in FY06 is to improve communication within and between internal and external Air Force business functions and requirement communities, to share lessons learned, leverage total spend capability, and establish more strategic contracting vehicles. It is then imperative that the Air Force better communicate the existence of these strategic sourcing contracts across the Air Force enterprise (to include program management, finance, functional areas, resource advisors, government purchase card holders, contracting offices). Additionally, it will become increasingly more important to communicate that "strategic sourcing" does not equate to "bundling" as some have implied. The Air Force met its socio-economic goals in FY05 by making small business an important part of its strategic sourcing strategies and will continue this trend in FY06.

Policy

Through policy establishment and updates the Air Force continues to establish a framework of rules that govern and promote the efficient operation of strategic sourcing initiatives.

Historically, the Air Force has worked to revise the Air Force Federal Acquisition Regulation Supplement (AFFARS) and has issued policy memorandums that enable the establishment and function of Commodity Councils. The Air Force has drafted and will publish an Air Force Policy Directive entitled "*Commodity Councils*" which details the roles and responsibilities for implementing commodity councils within the Air Force. The directive requires all Air Force bases, Major Commands (MAJCOMS), and Direct Reporting Units to analyze their business base from a strategic sourcing perspective, determine if an Air Force or MAJCOM strategy is already in place for that product or service, and if not, pursue strategic sourcing to the extent practicable.

Enterprise Architecture

The Air Force will continue to invest in the Enterprise Architecture for Procurement (EAP), which further promotes Air Force strategic sourcing initiatives. This architecture establishes the framework for acquisition strategy development and focuses on the capabilities necessary for Air Force procurement professionals to support current and future forces and missions. The final product will include a complete set of operational, system, and technical artifacts, and will be integrated with the SAF/AQ enterprise architecture and the USD (AT&L) architecture to ensure the Air Force is utilizing a common approach to procurement. Two main components of the EAP architecture are Contracting Business Intelligence System (CBIS) and EZQuery--analytical reporting and business intelligence tools that leverage data from Air Force contract-writing systems. CBIS stores spend and supplier information in a common repository, and supports informed decision-making at the strategic level. EZQuery provides tactical analysis capabilities. EZQuery is currently operational and CBIS is scheduled to become fully operational in Jan 2006.

Organization Structure/Alignment

One of the biggest challenges the Air Force has experienced with implementing strategic sourcing solutions in recent years has been the tactical organizational structure of Air Force installation contracting squadrons. While most Air Force installation contracting squadrons support strategic sourcing concepts, they lack the manpower and resources required to implement new strategic sourcing initiatives. In Aug 05, the Air Force began to study the alignment of Air Force installation contracting squadrons. The Air Force will carefully consider recommendations resulting from this study and assess the ability to realign the Contracting Enterprise to gain greater efficiency and effectiveness while providing better support to Air Force installation commanders and warfighters.

The Air Force also continues to look for opportunities to streamline its organizations and find efficiencies in BRAC/ joint basing initiatives. In January 2005, the Air Force reactivated the Air Force District of Washington (AFDW) to strengthen the Air Force's participation in the newly established Joint Force Headquarters-National Capital Region (NCR). This initiative was designed to provide strategic acquisition capability within the NCR by leveraging multiple contracting organizations, and taking a strategic sourcing focus for common contracted functions and other strategic NCR-wide requirements. Organizationally, AFDW will serve as the single Air Force voice in the NCR for base-operating support, major command-level functions, ceremonial and musical effects, contingencies and consequence management. Under BRAC/joint basing, the Air Force will work diligently with OSD and other DoD Services to establish a framework that will consolidate agreed to installation support functions at adjacent

and nearby installations and determine what, if any, savings would be reaped by consolidating Services functions and contracted installation support.

CONCLUSION

We hope this information gives you insight into Air Force strategic sourcing activities and assures you that the Air Force sees strategic sourcing as a worthy endeavor. Should you have any questions regarding Air Force strategic sourcing efforts, please contact the office of the Assistant Secretary (Acquisition), Deputy Assistant Secretary (Contracting) at 703-588-7070.